IV. CASE STUDIES OF FIVE EXISTING MIXED-USE PROJECTS

This Chapter presents five case studies of existing mixed-use development projects. The purpose of the case studies was to draw on the experience of actual mixed-use development projects to illuminate the question of what local government could do to facilitate future mixed-use projects. The case studies were also intended to identify other general issues about this product type, including design, marketing and finance issues, that may affect the private sector's willingness to construct this form of development. A future addendum to this Report will provide updated information about each of these projects, focussing on long-term operational implications for mixed-use projects.

A. OVERVIEW

Selection Criteria. The five specific projects chosen for case studies were selected from an inventory of small-scale mixed-use projects in Southern California compiled by the HR&A project team (see Appendix A to the full Report). Among the selection criteria of particular importance were that:

- the projects be of a scale that Westside city planners believe would be able to win approval in their jurisdictions (i.e., less than or equal to 150,000 gross square feet; six or fewer stories in height);
- the projects include a residential use and at least one commercial use;
- the project was completed and in operation, or very close to completion, so that operational issues could be explored; and
- a mix of privately financed and publicly-assisted examples.

It was also necessary that the project participants be willing to share their experience and data about the project with the HR&A project team. Whenever possible, the project's developer, architect and construction and/or permanent lender were interviewed, using a semi-structured interview protocol. In a few cases, this information was supplemented with published information about the project.

The characteristics of the five case study projects, and the key project participants are summarized in Table IV-1, on the following page.

Table IV-1.
Summary Characteristics of the Mixed-Use Project Case Studies

Project	Characteristics	Developer	Architect	Lender
Venice Renaissance Main Street Venice	66 condos and 23 rentals for seniors 20,000 sf retail 69,700 sf site	Harlan Lee & Associates	Johannes Van Tilburg	Chase Manhattan; Bank of America
Wilshire/Wellesley West Los Angeles	60 condos (20% affordable) 8,000 sf retail 28,000 sf site	Dkoby Enterprises	Johannes Van Tilburg	General Bank, Alhambra
Janss Court 3rd Street Promenade Santa Monica	32 market-rate rentals 51,000 sf office 13,000 sf retail 21,000 sf movie theater 30,000 sf site	Janss Corp.	Johannes Van Tilburg	Bank of Montreal
Senior Housing/Mrs. Gooch's/Public Parking Beverly Hills	150 rentals for low-income seniors 26,000 sf retail 877 public parking spaces 65,300 sf site	Menorah Hsg. Foundation; City of Beverly Hills	Kamnitzer & Cotton	HUD; City of Beverly Hills
Wilshire Promenade Fullerton	128 rental units (20% affordable) 12,500 sf retail 65,300 sf site	Howard Platz Group	McClaren Vasquez & Partners	National Bank of Canada

Source: HR&A

Case Study Format. Each case study is presented in a consistent format that includes a general description of the project and its use components, exterior photographs of the project, and a summary of the interviewees' comments, observations and suggestions for facilitating future mixed-use development projects.

B. CASE #1: VENICE RENAISSANCE

General Description of the Project. The Venice Renaissance project consists of 132,400 gross square feet on a 1.6 acre site fronting Main Street in the Venice community of the City of Los Angeles, about two blocks from the Pacific Ocean.

The Project Development Team. The project was developed by Harlan Lee & Associates and The Anden Group. The architect was Johannes Van Tilburg & Partners, which has perhaps the most experience of any architectural firm with mixed-use development in the Los Angeles area. The construction lender was Chase Manhattan Bank and the permanent lender was Continental Bank, which was later acquired by Bank of America.

Density and Building Height. The project's floor area ratio is 1.90 (not including the parking) and the residential density is 55.6 units per acre. The building is four stories in height.

Land Use Mix. This project includes three levels of housing above 30,000 square feet of ground floor commercial space:

- *Retail.* The retail space includes 10,000 square feet of restaurants (first North Beach Cafe and now Koo Koo Roo, and Chaya Brasserie) and 20,000 square feet of general retail.

- *Residential.* The project includes 66 market-rate condominiums and 23 rent-restricted apartments for seniors. There is a wide range of unit types to take advantage of ocean views. There are five basic floor plans and a total of nine variations, including one with three levels (loft and roof deck). The seniors rentals are all on the Main Street side of the project

Parking Requirements. The project includes 473 parking spaces on three levels, two of which are below grade. City requirements for an additional 105 spaces for beach users and neighborhood residents necessitated a second subterranean parking level. Parking issues that arose included:
- *The City counted parking for each use separately.* This project was required to have 2.5 spaces for each condo, a half space per unit for seniors rentals, four spaces per 1,000 sf for commercial uses, one space per 50 seats for restaurants and additional parking for community and beach access. In other words, the project had to provide full parking for each separate land use component, plus 110 spaces for public beach

Venice Renaissance
NWC of Main Street
and Rose Avenue
Venice, CA

Front and side view,
looking north

Front view,
looking northwest

Front view,
looking southwest

Venice Renaissance
NWC of Main Street
and Rose Avenue
Venice, CA

Side view,
looking northeast

Rear view,
looking north

access. The City offered no reductions in recognition of the mix of uses, and their overlapping parking demand.

- *Too much parking was required for actual needs.* The developer and project architect found the City's parking requirement much too high for the needs of a mixed-use project. More than half of the condo units were bought by single people with one car, who do not use the extra spaces required by the City. When the commercial stores close, guests park in those spaces. Other uses for the extra parking have been considered since construction was completed in order to generate income to support the project and to offset the added project costs. For example, surplus parking was rented to residents and businesses in the surrounding area. No matter what was done, however, the $1 million to $2 million in additional capital outlay needed to construct the City-required parking was not and could not ever be offset.

Entitlements Required. The project was developed between 1984 and 1989, including a 30-month approval process involving a General Plan amendment, zone change, variances and numerous public hearings and community meetings, and a 27-month construction period.

According to the developer, the Los Angeles City Planning Department "cut its teeth" on this project. The City had never entitled a mixed-use project like this one before, and it necessitated working within a rules structure that did not envision such projects. For example:

- A Community Plan amendment and subdivision tract map were needed for the condominiums. A yard variance was also needed for the residential use above the commercial use, along with 10 other variances of various kinds. The City wanted to apply R3 yard setbacks for the upper floor residential units even though the project was in a C4 (highway commercial) zone.

- The project involved vacating a street and had just come under Proposition U, whereby the previously allowed floor area ratio was reduced to 1.5 to 1. A zone change was required to achieve the required 1.9 FAR.

- There was no adopted Local Coastal Plan in Venice. Once the project received Coastal Commission approval, a Conditional Use Permit was needed for the restaurants in order to enable them to serve alcohol and stay open past 11:00 p.m. A "shared parking" permit was also required in order to valet park in the aisles on weekends during the day.

The developer's extensive efforts to rally community support for the project were critical to winning discretionary permit approvals. Nevertheless, the extended time needed to process the various permits, which were required to be performed in series, and not concurrently, were a major financial burden, according to the developer, and significantly interfered with his ability to secure project financing.

Design Issues. The ground floor arches were problematic. They were needed to appease the neighbors and help the project blend with perceptions about what Venice should look like. They also contributed to the feel of the residential component. Traditional retailers hated the arches because they wanted signs on the building, directly in front of their store, for exposure. The arches blocked the storefront signs. All of the retailers wanted more exterior individuality; one of the restaurants went so far as to remove the arches. In response, the architect introduced awnings and different color paint for some retailers and for the gym, and planters for the other restaurant.

The project is well known for its prominent public art pieces -- the Jonathan Borofsky "Ballerina Clown" above the Main Street/Rose Avenue corner and Guy Dills' "Harmic Arch" suspended over the entrance to the motor court and garage. These works were also part of a strategy to connect the project to the Venice community, in this case through the work of two of its best known artists.

Building Code Requirements and Construction Inspection Issues. The developer and architect encountered many kinds of building code problems with the project, including fire ratings for courtyards and exterior walls, questions about the appropriate type of construction, exit stair requirements, separation walls between housing and retail, differences between building and fire department regulations, penetrations between two occupancies, fire doors, and fire curtains. Again, this was a problem of the City not having established rules for this type of development, and being unwilling to adapt the rules that typically apply to individual uses when they are on separate parcels. Specific issues included:

- *Use separations.* The use separation problems resulted in the creation of masonry walls, front to back in the retail section of the building. This made it hard to subdivide the space and created store depths that were too deep.

- *Construction type.* Office above retail is easier in terms of mixed-use, because there are not as many plumbing lines. Had it not been for the restaurants, the whole project could have been Type V construction (wood frame) and only one level of subterranean parking would have been needed. But the income from the restaurants was critical to the project's feasibility.

- *Inconsistent interpretation of code requirements.* The project was also a victim of the general lack of agreement between the City's Building Department and the Fire Department on the ground rules which should govern building design. Resolving these inter-departmental differences required hiring "code consultants" to negotiate various code issues with the departments. Once preliminary plan and building code checks had been passed, these approvals should have been binding on all future approvals, in the development team's view, but they were not.

- *Inspector turnover.* There were 25 or 30 different building inspectors who visited the job site, not just because of all the trades involved, but because inspectors in the same department would change about every six months. Each one interpreted the building code differently, causing numerous construction modifications. The resulting delays were costly in terms of dollars and good will.

Development Costs. Project costs were approximately $29.7 million or $224 per square foot, including $3.2 million for land, $2.7 million for site improvements, $15 million for construction and $8.7 million for soft costs.

Marketing and Lease-up Experience. Had it not been for the delays in processing entitlements and the added time in construction due to new inspectors and new requirements with each new inspector, the developer believes he could have sold all the units in 1988. But the project got caught in the retail market downturn in 1989 and 1990. The retail would not lease, which affected the sale of the condos. The extended time in delays and construction resulted in the project missing the market.

- *Retail issues.* A weakening retail market resulted in a greatly extended lease-up schedule. There are limited locations in the City where this product type can be successful, the developer believes. The retail users need a lot of foot traffic to generate sales. At Venice Renaissance, the "in-between" retail spaces (middle section) were too deep (65 feet). Maximum lease depth should have been 35 feet to enable leasing 700 to 800 square foot spaces. The middle section was finally taken by Powerhouse health club. The corner spaces were much easier to lease, particularly to restaurants.

- *Residential issues.* Strong demand for housing resulted in selling and leasing of the residential units in a timely manner. The condominium units, all two-bedrooms ranging in size from 1,200 to 1,700 square feet, sold for between $240,000 and $500,000. All of the rental units are occupied. The residents at Venice Renaissance love living there, the developer reports. Many moved from inner city locations. They love being close to services and the beach and a higher amenity urban lifestyle. The large number of single-woman households reflects a perception that the project's security features were a very important selection criterion, including the fact that the units were at the more inaccessible second story level and above.

Project Financing and Financing Issues. The lender initially had concerns about the ability to sell housing units over commercial space. The lender feels that the developer was lucky with Venice Renaissance. Had it been a more normal market, with more traditional housing options, the lender is not sure how well the residential component would have fared. With a dramatically changed lending environment, lenders now expect to review the financial statement of a project's financial partner and require loan guarantees in order to provide a decent loan to value ratio for a project. Small, unsophisticated developers probably cannot complete these kinds of projects with conventional financing, according to the project's construction lender.

At Venice Renaissance, the construction loan was repaid primarily out of the proceeds of the condo sales. The balance was secured by the income-producing portion of the project; the permanent loan eventually took out the unpaid balance.

In the view of the project's lender, the standard 13% to 15% internal rate of return that is acceptable for single-use residential or commercial projects is not enough to compensate for the added problems and risk involved in mixed-use development. A 20% IRR was recommended as a more appropriate threshold for minimum project feasibility.

C. CASE #2: WILSHIRE WELLESLEY

General Project Description. The Wilshire Wellesley project is located on Wilshire Boulevard near Wellesley Avenue in the Brentwood area of the City of Los Angeles, near the Santa Monica border. The project includes 82,500 gross square feet on a 0.63-acre site. This project was under construction at the time the case study was prepared.

The Project Development Team. The project is being developed by Dkoby Enterprises, Inc. Johannes Van Tilburg & Partners is the architect. General Bank of Alhambra provided the construction loan.

Density and Building Height. The FAR is 3.0 and it has a residential density of 95 units per acre. The buildings will be five and six stories in height.

Wilshire Wellesley
SEC of Wilshire
and Wellesley
Los Angeles, CA

Front view,
looking southeast

Side view,
looking south

Front view,
looking west

Wilshire Wellesley
SEC of Wilshire
and Wellesley
Los Angeles, CA

Front view,
looking east

Side view,
looking south

Land Use Mix. When complete, it will contain a combination of 48 market-rate condominiums and 12 price-restricted condominiums above 6,000 square feet of ground floor retail space.

- *Retail.* The retail mix will affect the rate of sale of the residential units. This project needs particular retail tenants to enhance the marketing of the units, the developer believes. Tenants want convenience and "boutique" kinds of retail, such as a gourmet food store, coffee shop, wine and cheese store or vitamin/health food store.

  The developer received many inquiries from retail tenants interested in pre-leasing, but the marketing strategy was to preclude any pre-leasing until the project nears completion. The developer felt that market rents will rise prior to the completion of construction and that continued market strengthening will increase the possibility of securing triple-A tenants and nationwide chains. The developer credited the strong interest from retailers to the highly visible and recognized Wilshire Boulevard location and the upscale Brentwood community.

- *Housing.* All the market rate units are on floors 3 through 6 where they get clear views of the ocean and Century City. The low- income units are on the second floor. The City of Los Angeles initially required the lower-income units to be comparable to the market rate units without stipulation as to size or location within the building. Then, on the last day of the public hearing process, several members of the City Council questioned the definition of comparability. Another Council member was able to persuade his colleagues that those issues should have be addressed up-front when a developer first brought the project before the City, and that to request the developer to make a change in the design at this late date would be very costly.

Parking Requirements. The project includes 180 parking spaces in three levels, two of which are below grade. The City required the same number of parking spaces per unit for the affordable condos as the market-rate condos, which this developer believes is unnecessary, because the lower-income households generally have fewer cars than upper-income households.

Entitlements Required. The project's approval process extended over a three-year period and included the granting of a conditional use permit and subdivision tract map. This project was processed under a 1991 mixed-use ordinance designed to address problems encountered with previous mixed-use projects, such as the Venice Renaissance profiled above. The decision to include low-income units in order to qualify for a density bonus (as permitted), triggered the need for a conditional use permit. This discretionary process alone took about one year to compete.

The zoning for the site was changed from C2 and an FAR of 1.5, to R3 and an FAR of 3.0. The developer wanted at least an R4 or R5 zoning and density. The site is surrounded by high-rise office buildings. Limiting density was felt by the developer to be inconsistent with the adjacent land uses.

Development Costs. Total project costs are estimated to be $14.2 million or $172 per square foot, not including land costs. Construction costs were estimated to be $8.5 million.

Marketing and Lease-up Experience. The developer attributes the strong interest in both the residential and retail space to location. Brentwood and the Westside are a strong and growing market for higher density, mixed-use living. The developer identifies the area as the last "hold-out" for people moving from Hollywood and Burbank and places east, especially for people associated with the entertainment industry.

The project also offers tenants an opportunity to own a home with all the amenities at a lower cost than a single-family house. The amenities are generous, including a Jacuzzi, billiard room, conference room, party room, etc. and the homeowners' fees are about $300 per month. The project competes with the Wilshire corridor condos in Westwood, which is significantly farther from the ocean and is reported by the developer to have three times the homeowners' association fee.

- *Market rate units.* The market-rate units will be 1,300 to 1,600 square in size and be priced up to $600,000. The developer worries that lower-income households will not be considered desirable neighbors by market-rate households in the same complex, regardless of whether the units are rentals or condos.

- *Affordable units.* The price-restricted units will be 800 to 900 square feet in size and will priced up to $110,000. The developer has been approached by mostly lower-income professionals for the 12 low-income units (max. price $110,000), for which there is a full waiting list.

- *Retail uses.* The developer envisions the retail space being occupied by three tenants of approximately 2,000 square feet each.

Project Financing and Financing Issues. The construction lender is primarily a residential lender. This project is all condos, *including* the retail. The lender generally uses a 65 % loan to value ratio, and for mixed-use projects with higher-end units the bank typically uses a 55% to 65% loan to value ratio. For the Wilshire Wellesley project, the bank used a 55% loan to value ratio. If the end buyers want individual home loans, the bank will also consider underwriting those. While the loan to value is 55%, the loan to cost ratio is closer to 70%.

The lender considers the project's location to be good for residential and mixed-use development and may consider doing other projects like this one in other locations. However, this is the bank's only mixed-use project and it generally does not consider loans for retail or mixed-use products. The bank evaluates the real estate strictly on the merits of the product in the market place. It does not consider local regulatory policies and constraints.

D. CASE #3: JANSS COURT

General Description of the Project. This project contains 131,000 square feet on a 0.69-acre site at the corner of Broadway and the Third Street Promenade in the City of Santa Monica. At the time of its development, it was viewed by the City and the local business community as a key demonstration of faith in the revitalization of the Promenade, and a leading example of the possibilities for mixed-use development in the City.

The Project Development Team. The project was developed by Janss Corporation, with substantial equity from MKDG (Marvin Davis and partners), between 1986 and 1988. The project architect was Johannes Van Tilburg & Partners. The construction lender was the Bank of Montreal.

Density and Building Height. The FAR is 4.0 and it has a residential density of 46.5 units per acre. The building is seven stories high.

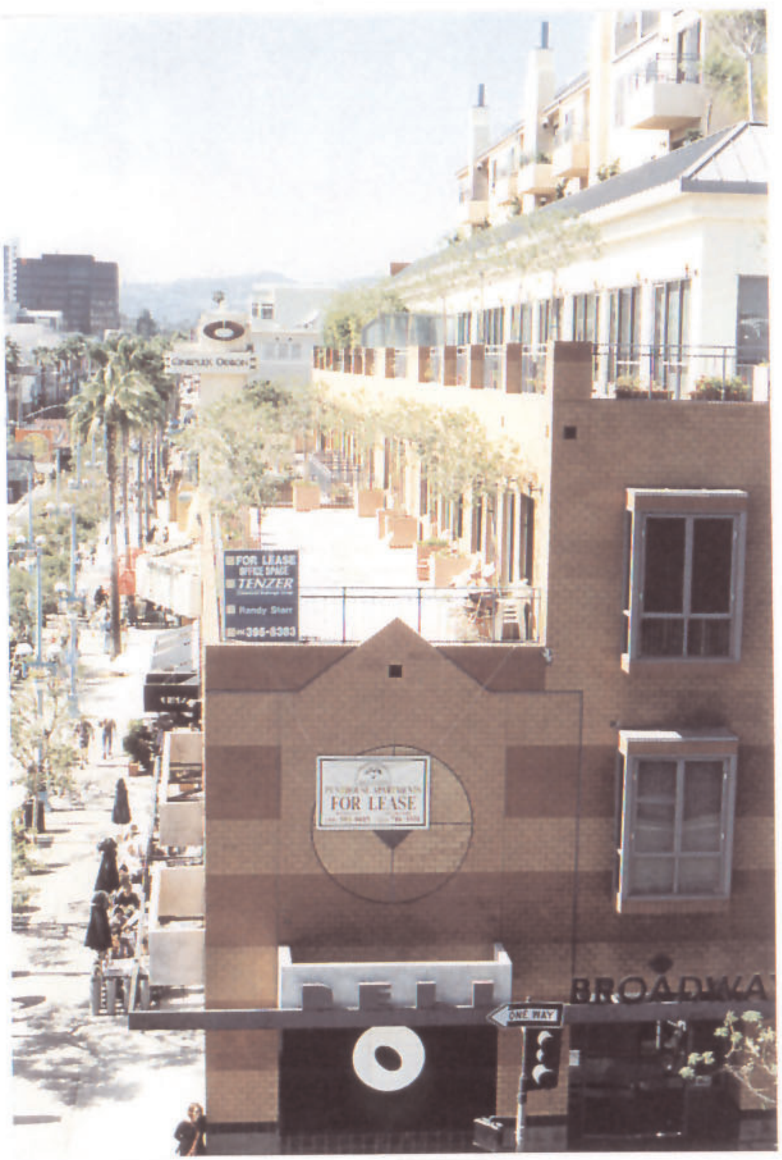
Land Use Mix. This project includes 32 market-rate apartments and 50,880 square feet of office space above 33,800 square feet of commercial space, including a fourplex movie theater of 20,700 square feet and two restaurants comprising 13,100 square feet.

- *Retail Uses*. Here again is an example where the commercial portion of the project does not necessarily drive the economics of the project. With the Janss project, residential rents approximate commercial rents. Residential rents are about $2.00/sf and commercial rent is $2.00 to $2.50/sf (plus percentages of gross for the two restaurants).

Janss Court
NEC of Broadway
and 3rd St. Promenade
Santa Monica, CA

Front and side view,
looking north

Side view,



Janss Court
NEC of Broadway
and 3rd St. Promenade
Santa Monica, CA

Side and upper level view,
looking north

Rear view,
looking north

The retail tenants include a four-screen Cineplex Odeon, an upscale Italian bistro and a popular deli, all of which enjoy substantial walk-in patronage generated by the Third Street Promenade.

- *Housing*. The residential uses were originally considered to be the riskiest component of the project because of the untested downtown market. The units have reportedly maintained very high occupancies, at least until the extent of the 1994 Northridge earthquake damage became known.
  Santa Monica's current requirement that 30% of all units in new apartment and condo projects be affordable to low- and moderate-income households did not apply at the time this project was approved, and there are no affordable units in the project. The project architect believes that the residential component of the project would not have been feasible had this current requirement applied to the project.

Parking Requirements. Three and one-half levels of subterranean parking, including 203 spaces, for residential and office users are provided, although no parking was required by the City for commercial uses due to the public parking structures nearby. Some on-site parking was perceived to be needed for the office space (at about half the otherwise-applicable code standard) to meet market demand. Also, tandem parking was provided for the residential units in order to satisfy prospective tenants. Relying on the City's parking structures for self-park and valet parking for the ground floor restaurants and movie theater saved the cost of 650 parking spaces that would have otherwise been required.

Entitlements Required. The project was one of the first to be developed under the City's Bayside District Specific Plan, which specifically encouraged mixed-use development and a project of this general scale at this prime corner location. The City approval process was expedited due to an interest from the City of Santa Monica in providing mixed-use projects on the Third Street Promenade. The developer received a 33% increase in FAR, equivalent to the area of the site, by providing a pedestrian passageway through the building from the Promenade to the public parking structure across the alley at the rear of the property, and for providing housing instead of all commercial uses.

The project represents the product of what most observers believe a city must do to facilitate mixed-use development: reductions in on-site parking requirements; density and height bonuses; creative interpretation of building code requirements and supportive inspection coordination. The project also received comparatively prompt approval processing (about six months). The cooperative working relationship with the City gave the developer sufficient confidence to commence preparation of working drawings prior to completion of the entitlements process, and was thereby able to fast-track the construction schedule.

Development Costs. Total project costs were approximately $26.2 million or $200 per square foot, including $3.9 million for land, $149,000 for site improvements, $11.5 million for construction and $11.6 million for soft costs. Cost savings were achieved through the elimination of a parking requirement and an agreement with the city to allow Type V construction (wood frame) for the apartments on a 6.5 inch thick concrete deck above Type I construction (steel frame) for the commercial space. Overall construction costs were reported to be much higher than anticipated, but higher than expected rents helped compensate for construction cost overruns, at least initially.

The project reportedly experienced significant structural steel joint damage in the January, 1994 Northridge earthquake.

Building Code Requirements and Construction Inspection Issues. Another significant cost savings was achieved through creative interpretation of a fire code regulation. By providing a wide terrace at the fourth floor office level that could be used to stage fire-fighting for the upper three floors of residential units, and by constructing the residential units on a 6.5-inch concrete and three-inch metal deck, the project was able to use wood frame construction on the residential floors (and Type I steel framing for the lower four floors).

Lease-up and Marketing Experience. The office and residential components are clearly separated (elevators and parking), such that the success or failure of each would not necessarily have an impact on the marketing of the other. Upon completion of construction, there was a very short leasing period due to a strong commercial and residential market and significant pre-leasing. The apartments, which are 700 to 1,200 square feet in size and contain fireplaces, private decks and lofts, were 90 percent pre-leased, almost entirely to young professionals, many of whom reportedly work in the general area.

Office and rental occupancy difficulties have occurred in the wake of the Northridge earthquake. According to press reports, two office workers recently filed suit against the project and the ground floor Broadway Deli restaurant alleging that the building's ventilation system was contaminated with toxic materials.

Project Financing and Financing Issues. Due to a then-pending foreclosure by the Bank of Montreal, the HR&A project team was unable to discuss the project financing with the developer or the construction lender.